Consensus Revenue Agreement
Executive Summary
May 18, 2004

Economic and Revenue Forecasts
Fiscal Years 2004 and 2005

<u>Principals</u>	**<u>Staff</u>**
Gary Olson, Director **Senate Fiscal Agency**	**Jay Wortley** **Senate Fiscal Agency**
Mitch Bean, Director **House Fiscal Agency**	**Rebecca Ross** **House Fiscal Agency**
Jay Rising, State Treasurer **Michigan Department of Treasury**	**Jeff Guilfoyle** **Michigan Department of Treasury**

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EXECUTIVE SUMMARY
May 18, 2004

Revenue Review and Outlook

- The year-end total for Fiscal Year (FY) 2003 GF-GP revenue on a Consensus basis was $7,958.9 million, a 5.6 percent decline from FY 2002. FY 2003 year-end School Aid Fund (SAF) revenue totaled $10,714.8 million, up 5.7 percent from FY 2002. The change in the timing of state education tax payments increased the FY 2003 growth rate. Without this change, SAF revenues would have increased approximately 1.3 percent.
- FY 2004 GF-GP revenue is projected to decline 1.2 percent to $7,866.4 million, an $8.9 million increase from the January Consensus estimate. SAF revenue is expected to fall 1.7 percent to $10,535.2 million, $49.1 million below the January Consensus estimate.
- FY 2005 GF-GP revenue is projected to decline 0.1 percent to $7,856.3 million. This total is $33.6 million above the January Consensus estimate. SAF revenue is projected to increase 4.0 percent to $10,960.4 million, $38.2 million below the January Consensus estimate.

2004 and 2005 U.S. Economic Outlook

- Real Gross Domestic Product growth is forecast to average 4.6 percent in 2004 and 3.7 percent in 2005.
- National payroll employment strongly increased in March (337,000 jobs) and April (288,000 jobs). Wage and salary employment has grown the past eight months and is beginning to erase the job losses since the beginning of the last recession. However, payroll employment is still 1.6 million jobs below the March 2001 peak. The U.S. unemployment rate is forecast to average 5.5 percent and 5.3 percent in 2004 and 2005, respectively.
- Historically low interest rates have provided consumers with the ability to purchase housing at record levels and refinance existing mortgages. However, with wage and commodity price pressures building, interest rates are projected to rise in the summer of 2004 and increase throughout the forecast period.
- Low capacity utilization rates will constrain investment, but the need to replace increasingly obsolete machinery, tax incentives that expire in 2004 for new investment in equipment, and higher profits will help spur investment.
- Light vehicle sales are forecast to be 16.7 million units in 2004 and 16.9 million units in 2005, relatively stable from the past two years.
- Consumer price inflation is forecast to be moderate, averaging 2.4 percent in 2004 and 2.8 percent in 2005.

2004 and 2005 Michigan Economic Outlook

- Michigan wage and salary employment is forecast to grow modestly in the second quarter of 2004 and continue to record gains throughout the forecast period. However, Michigan wage and salary employment is expected to register its fourth straight year of decline (-0.6 percent). By 2005, Michigan wage and salary employment is forecast to grow 1.5 percent.

- The Michigan unemployment rate is forecast to fall to 6.8 percent for 2004. In 2005, the Michigan unemployment rate is forecast to decline further to 6.5 percent.

- Wage and salary income will post a small gain (1.8 percent) in 2004, and increase at a faster pace of 4.7 percent in 2005. Personal income will post moderate increases throughout the forecast horizon. In 2004 and 2005, personal income is forecast to rise 3.3 percent and 5.8 percent, respectively.

- In FY 2004 and FY 2005, Michigan wage and salary income is expected to grow 1.5 percent and 4.0 percent. Disposable income is expected to rise 4.3 percent and 4.7 percent in FY 2004 and FY 2005.

Forecast Risks

- The economic expansion appears to be self-sustaining as stronger employment growth is beginning to materialize at the national level. However, Michigan job growth has remained elusive. If businesses lose confidence in the expansion, employment growth may be slower than forecast.

- Business investment is key to the continued economic expansion. If firms invest more than expected, growth may be stronger than forecast.

- Michigan manufacturing employment has declined sharply over the past few years. Over the forecast horizon, Michigan manufacturing employment is forecast to remain flat in 2004 and grow slightly in 2005. If Big Three market share falls precipitously, manufacturing employment may keep falling.

- Weaker growth abroad could also slow domestic growth by reduced exports.

- A rapidly falling dollar, while helping the manufacturing sector and exports, could also spur inflation and lead to instability for U.S. financial markets. Equity prices are expected to rise moderately. Slower growth or outright declines could slow consumption and investment spending.

- Sharply higher oil and natural gas prices could curb growth. In general, unexpected price increases could dampen the economic recovery.

- Geopolitical concerns continue to pose a risk to the forecast.

ECONOMIC REVIEW AND OUTLOOK
May 18, 2004

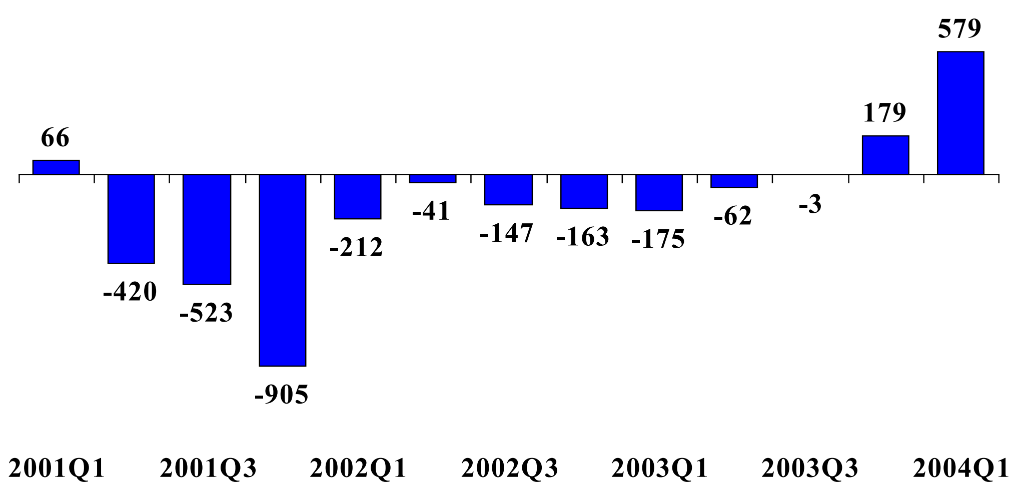
Current U.S. Economic Situation

Summary

Since the last recession was declared over in November 2001, the missing component of a robust recovery has been employment growth. Output growth as measured by real GDP has recorded healthy gains only in the past few quarters. Real GDP registered growth of 8.2 percent in the third quarter of 2003, followed by 4.1 percent growth in the fourth quarter and 4.2 percent real GDP growth in the first quarter of 2004. Consumer spending has remained resilient despite the weak payroll employment figures. Housing starts and existing home sales have been strong. Light vehicle sales have been steady, although record rebates have been needed to sustain sales.

Over the past few months, employment has begun to turn positive and has registered substantial growth. April payroll employment grew 288,000 while March payroll employment increased 337,000. The graph below illustrates how weak employment growth has been and the recent upturn. The first quarter of 2004 shows payroll employment increasing by 579,000, the most since the first quarter of 2000. However, U.S. payroll employment is still 1.6 million jobs below the March 2001 peak. Job growth will be key to sustained economic growth.

US Payroll Employment Showing Strength
(Quarterly Change in Thousands)



Source: Bureau of Labor Statistics

Interest rates have remained at historically low levels, but are expected to rise as inflationary pressures build with higher commodity prices and wage pressures as job growth increases. Energy prices, most notably oil, are increasing due to a restricted supply and growing world demand. Security concerns for oil supplies are also in the forefront with tensions high in Iraq and the Middle East.

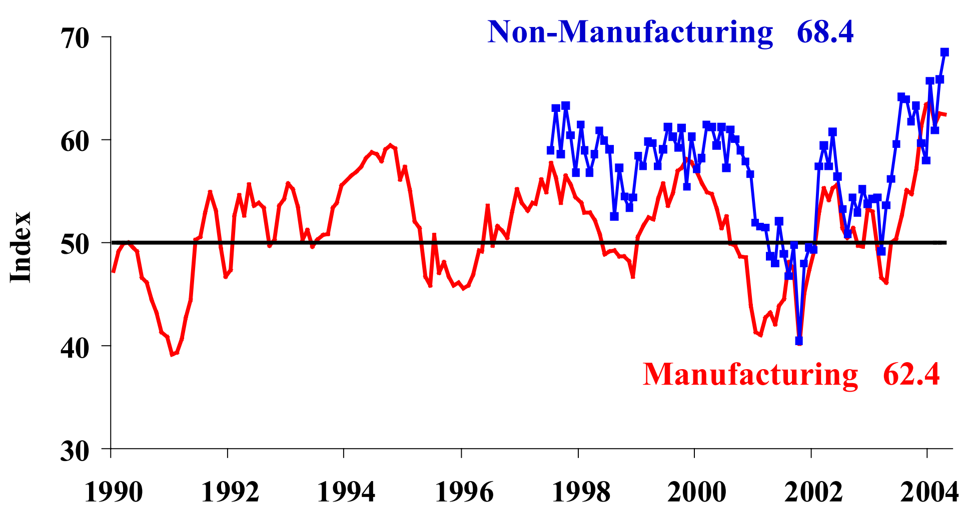
Business investment has been strong in recent quarters and is expected to remain strong. High corporate profits will allow for continued capital investment, while tax incentives that expire at the end of 2004 for new equipment purchases provide extra impetus for investment in the near-term.

Federal government spending is expected to remain strong in the near-term with defense spending remaining robust throughout 2004.

Major Economic Indicators

Several major U.S. economic indicators point to strong growth moving forward. Others, while generally positive, show some slack in the economy. The Institute for Supply Management's (ISM) manufacturing index has clearly signaled a fast growing manufacturing sector with six straight months of readings over 60. A reading of 50 indicates a growing sector. The April 2004 reading of 68.4 was a record for the ISM non-manufacturing index indicating strong services-sector growth.

ISM Indices Signal Strong Growth in Manufacturing and Services



Source: Institute for Supply Management.

For nearly a year, new durable goods orders have trended upward. March 2004 durable goods orders were strong as orders surpassed expectations. Using a three-month trailing average, new durable goods orders are 10.3 percent higher than a year ago. New orders for non-defense capital goods excluding airplanes are also strong and are up 10.8 percent (three-month trailing average) from a year ago. Capacity utilization remains near 20-year lows. However, over the past few months capacity utilization has trended upward and has been above year-ago levels for five consecutive months. Equipment investment has recorded increases of more than 10 percent the past three quarters through the first quarter of 2004.

Retail sales have risen six of the past seven months. Compared to April 2003, retail sales were up 8.0 percent from a year ago. Consumer sentiment has trended slightly upward since November. According to the University of Michigan's Sentiment Index, the upward trend reflects improving labor markets and wage growth. However, high energy prices and debt levels are acting as a drag on confidence. The ABC News consumer comfort index, which measures consumers' attitudes toward current economic conditions, has been more positive the past two months.

Employment

The U.S. labor market is beginning to record strong payroll employment growth. March and April payroll employment totals showed strong growth. This is in contrast to the previous few months, where employment growth was positive but generally weak compared to how strongly real GDP was growing. While U.S. employment has risen over the past eight months, the total number of jobs is still 1.6 million below the March 2001 peak and some sectors are still struggling. Even before the recession, the manufacturing sector was losing jobs. U.S. manufacturing employment has increased the past three months, but had fallen the previous 42 months. Over the past four years the manufacturing sector has lost nearly 3 million jobs. Rapid productivity gains have allowed firms to reduce payroll employment even as they continue to increase output. The U.S. unemployment rate for 2003 increased to 6.0 percent, the highest unemployment rate since 1994.

U.S. employment indicators are stronger and indicate that employment should continue to rise. Recent indicators also suggest that employers are laying off fewer workers and are just beginning to hire additional workers.

Weekly initial unemployment claims have been around the 350,000 mark since the beginning of the year. The most recent four-week average of initial claims was 335,750 on May 8, 2004, with recent readings the lowest since the beginning of the 2001 recession.

The Institute for Supply Management's (ISM) manufacturing employment index component has shown expansion the past six months. The non-manufacturing ISM employment index has signaled expansion the past seven months, after a slight contraction in September. The Challenger Report, which documents announced layoffs, has been showing a downward trend, especially in the private sector.

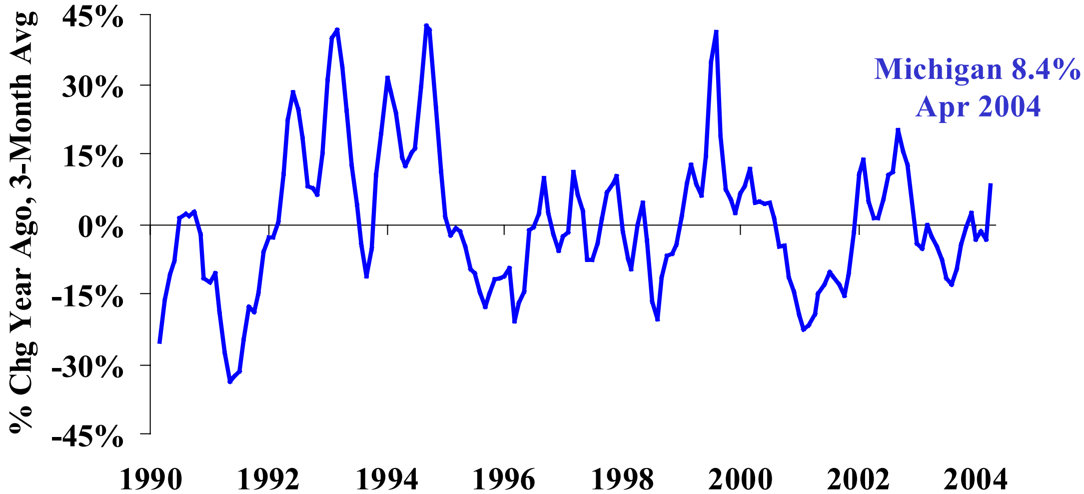
Weekly hours worked, a leading indicator for employment, has remained flat the past few months. The April 2004 reading showed average hours worked at 33.7 hours, unchanged from last month.

Vehicle Sales and Production

Rebates coupled with low financing rates have helped maintain vehicle sales above 16 million units. In 2003, light vehicle sales averaged 16.6 million units. Through April, year-to-date light vehicle sales have averaged 16.4 million units. Over the past few years, imports and transplants have continued to increase their market share. Thus, traditional Big Three market share has continued to fall, which is a concern for the Michigan economy.

Averaged over the past three months, U.S. vehicle production in April 2004 has increased 6.2 percent while Michigan vehicle production is up 8.4 percent. Early in the year, the Michigan three-month average had shown production down from a year ago, but Michigan vehicle production was strong in March and April.

Michigan Vehicle Production Up Recently



Source: Automotive News and Michigan Department of Treasury.

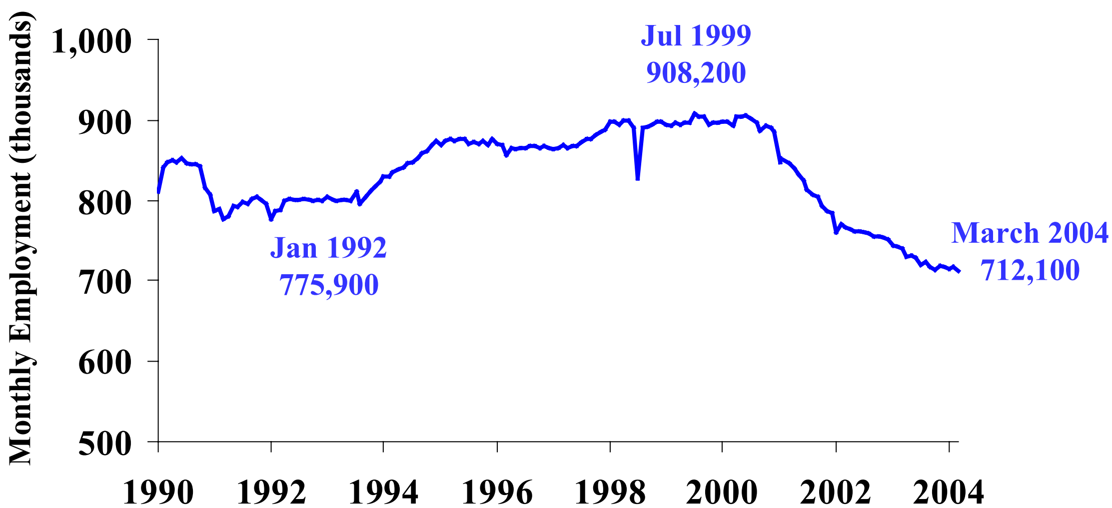
Current Michigan Economic Conditions

Employment

Michigan's employment performance has been below the national average. Over the past three years, the annual average for wage and salary employment has fallen. It is projected that wage and salary employment will also fall in 2004 before increasing in 2005. From Michigan's employment peak in June 2000 compared to March 2004, Michigan has lost 318,000 jobs, a 6.8 percent decline. By this time after the 1990-1991 recession, Michigan employment had risen above its pre-recession peak.

Michigan manufacturing employment has declined even more sharply. Over the last few years, Michigan has lost the manufacturing jobs it had gained during the 1990s. Since June 2000, Michigan manufacturing employment has fallen by 194,400 jobs (21.4 percent). Michigan has lost more than one out of every five manufacturing jobs it had at the state's employment peak.

Michigan Manufacturing Employment Declines



Source: Bureau of Labor Statistics.

Unemployment Rate

Michigan's annual average unemployment rate for 2003 was 7.3 percent, the highest level since 1992. The most recent monthly unemployment reading in March 2004 was 6.9 percent. The state's unemployment rate is down 0.1 percentage point from a year ago but is substantially above its lows, of around 3.0 percent, achieved during the expansion of the late 1990s.

Personal Income

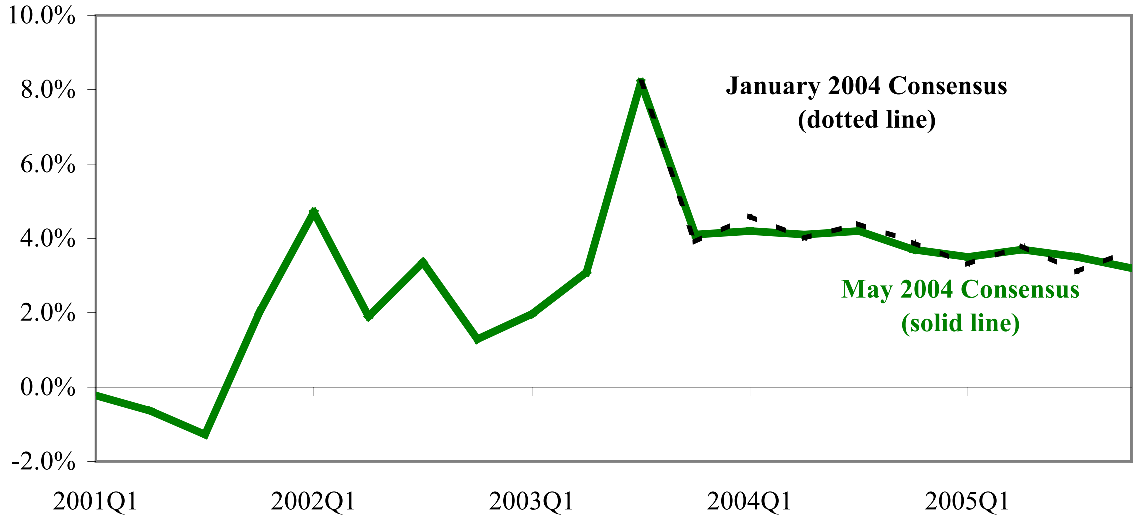
Michigan's personal income increased 2.5 percent in 2003. Overall personal income grew 5.8 percent year over year in the fourth quarter from 2.5 percent growth in the third quarter. Wages and salaries growth grew 1.4 percent year-over-year in the fourth quarter of 2003 from a 0.2 percent increase in the third quarter.

2004 and 2005 U.S. Economic Outlook

Summary

Real GDP is forecast to grow 4.6 percent in 2004 and 3.7 percent in 2005. Real GDP grew 3.1 percent in 2003.

Real GDP Forecast Comparisons

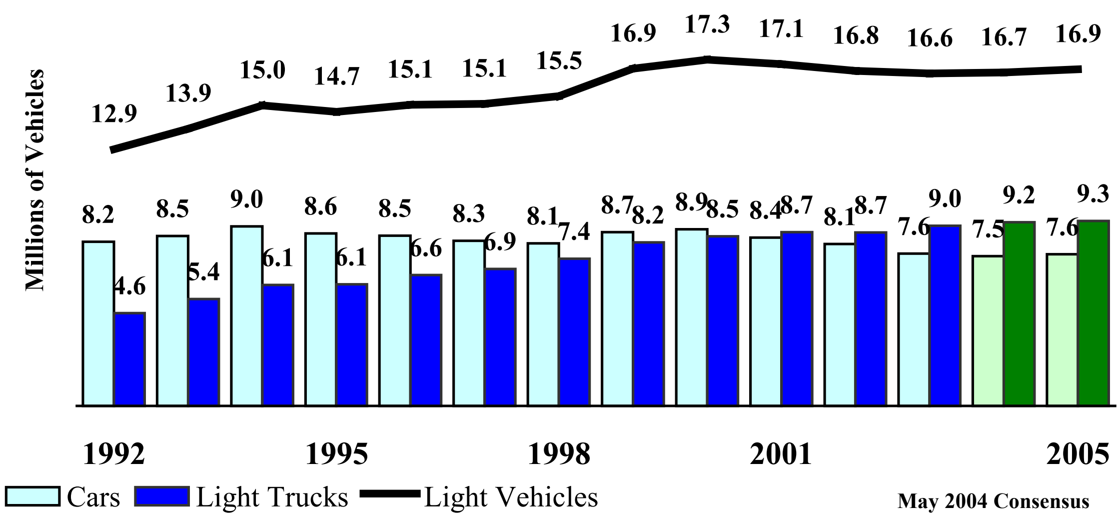


Business investment growth is forecast to increase in 2004 and remain steady in 2005. The expiration of bonus depreciation at the end of 2004 is expected to boost investment. Low capacity utilization rates will be offset by the need to replace increasingly obsolete machinery and by higher profits that will allow companies to make investments. Consumption is forecast to rise in 2004. A stronger labor market will help consumer spending and offset higher interest rates. Net exports are forecast to grow in 2004 and 2005 as the world economy strengthens and the dollar weakens. Light vehicle sales are nearly unchanged from 2003 with projected 2004 sales of 16.7 million units and 16.9 million units in 2005.

Inflation will remain moderate throughout the forecast horizon. As measured by the consumer price index (CPI), consumer prices are expected to rise 2.4 percent in 2004 and 2.8 percent in 2005. Interest rates are forecast to remain low even as the Federal Reserve begins to tighten in the summer of 2004.

U.S. employment is forecast to rise in 2004 and 2005 with solid gains throughout the forecast horizon. Thus, the U.S. unemployment rate is expected to fall from 6.0 percent in 2003 to 5.5 percent in 2004 and 5.3 percent in 2005.

Motor Vehicle Sales Stable



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Consensus Forecast, May 2004.

<u>Assumptions</u>

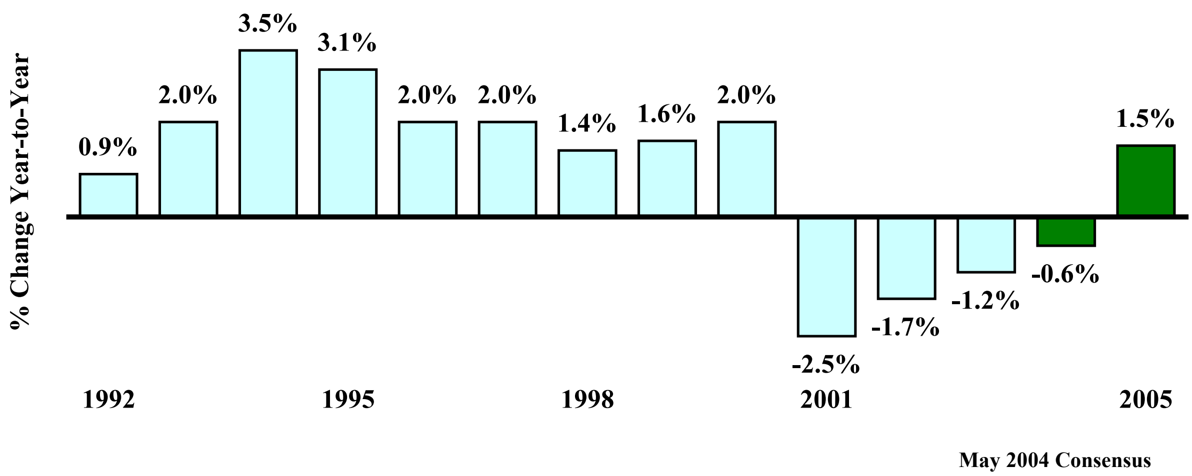
Energy prices are expected to fall from current levels over the forecast horizon with oil prices averaging $33-$35 a barrel in 2004.

With strong employment readings and commodity price pressures, the Federal Reserve is expected to raise the federal funds rate in June 2004 and gradually increase interest rates as the economy continues growing.

2004 and 2005 Michigan Economic Outlook

Michigan employment is forecast to decline in 2004 for the fourth straight year, and show moderate growth in 2005. Weak growth in manufacturing employment will constrain Michigan employment increases. Government employment gains are also expected to be weak. Michigan wage and salary employment is forecast to grow 7,000 in the second quarter of 2004 with job growth of 38,000 in the last two quarters of 2004. By the second quarter of 2005, job growth is forecast to increase 20,000. Wage and salary employment is forecast to decline 0.6 percent in 2004. Wage and salary employment is projected to increase 1.5 percent in 2005. Michigan's unemployment rate is forecast to fall to 6.8 percent in 2004 and drop to 6.5 percent in 2005.

Michigan Wage and Salary Employment Grows in 2005



Source: Michigan Department of Career Development, U.S. Bureau of Labor Statistics and Consensus Forecast.

Constrained by modest employment increases beginning in the second quarter of 2004, wage and salary income is projected to rise just 1.8 percent in 2004. In 2005, wage and salary income is projected to increase 4.7 percent as employment gains continue. Michigan personal income is forecast to rise to 3.3 percent in 2004 and 5.8 percent in 2005.

Inflation, as measured by the Detroit CPI, is forecast to be 2.3 percent in 2004 and 2.7 percent in 2005. As a result, real Michigan personal income (inflation adjusted) is expected to rise 1.0 percent in 2004 and 3.0 percent in 2005.

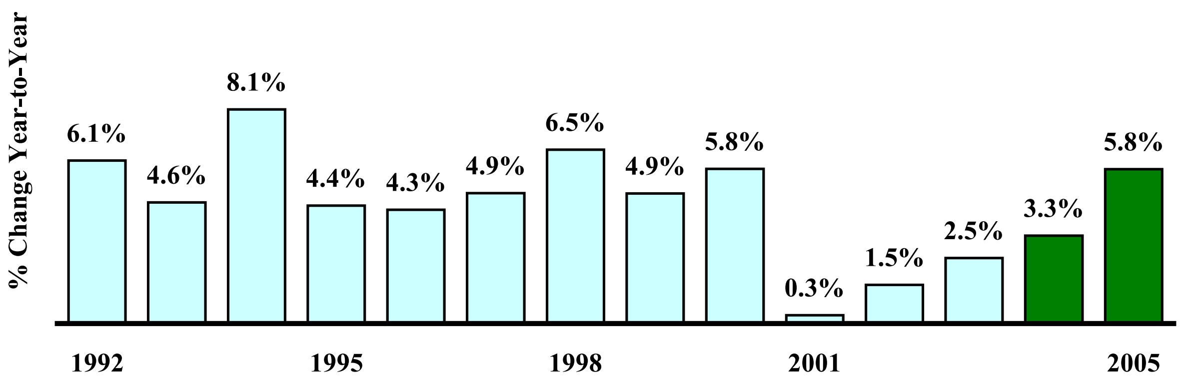
Table 1

Consensus Economic Forecast

May 2004

	Calendar 2002 Actual	Calendar 2003 Actual	Percent Change from Prior Year	Calendar 2004 Forecast	Percent Change from Prior Year	Calendar 2005 Forecast	Percent Change from Prior Year
United States							
Real Gross Domestic Product (Billions of Chained 2000 Dollars)	$10,083	$10,398	3.1%	$10,876	4.6%	$11,278	3.7%
Implicit Price Deflator GDP (2000 = 100)	103.9	105.6	1.6%	107.7	2.0%	110.6	2.7%
Consumer Price Index (1982-84 = 100)	179.9	184.0	2.3%	188.4	2.4%	193.7	2.8%
Personal Consumption Deflator (2000 = 100)	103.4	105.3	1.8%	107.5	2.1%	110.1	2.4%
3-month Treasury Bills Interest Rate (percent)	1.6	1.0		1.2		2.5	
Aaa Corporate Bonds Interest Rate (percent)	6.5	5.7		5.7		6.0	
Unemployment Rate - Civilian (percent)	5.8	6.0		5.5		5.3	
Light Vehicle Sales (millions of units)	16.8	16.6	-0.8%	16.7	0.3%	16.9	1.0%
Passenger Car Sales (millions of units)	8.1	7.6	-5.9%	7.5	-1.6%	7.6	1.3%
Light Truck Sales (millions of units)	8.7	9.0	3.9%	9.2	1.9%	9.3	0.8%
Import Share of Light Vehicles (percent)	19.6	19.9		19.8		19.9	
Michigan							
Wage and Salary Employment (thousands)	4,478	4,412	-1.2%	4,385	-0.6%	4,451	1.5%
Unemployment Rate (percent)	6.2	7.3		6.8		6.5	
Personal Income (millions of dollars)	$299,449	$306,820	2.5%	$316,945	3.3%	$335,328	5.8%
Real Personal Income (millions of 1982-84 dollars)	$167,384	$168,121	0.4%	$169,762	1.0%	$174,923	3.0%
Wages and Salaries (millions of dollars)	$173,421	$175,759	1.3%	$178,922	1.8%	$187,332	4.7%
Detroit Consumer Price Index (1982-84 = 100)	178.9	182.5	2.0%	186.7	2.3%	191.7	2.7%
Detroit CPI Fiscal Year (1982-84 = 100)	177.5	182.1	2.6%	185.2	1.7%	190.4	2.8%

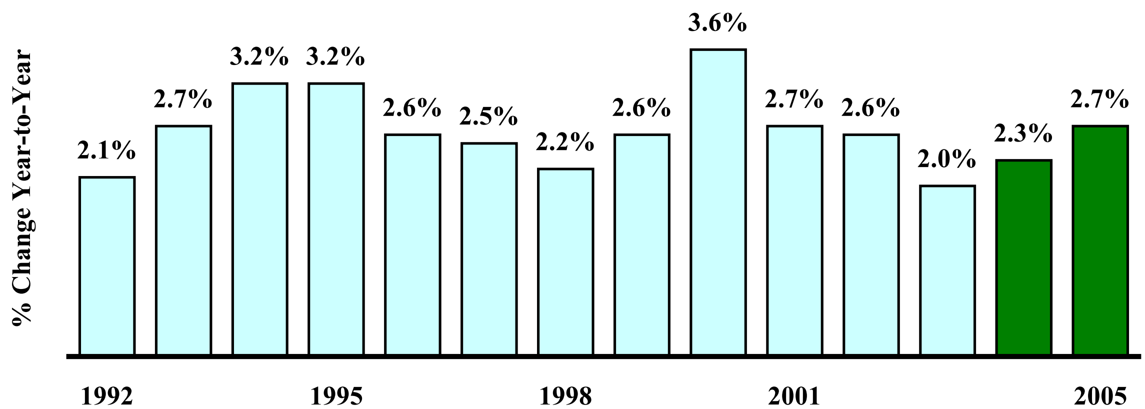
Michigan Personal Income Growth Stronger in 2005



May 2004 Consensus

Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Consensus Forecast, May 2004.

Inflation Rate Remains Low
Detroit CPI

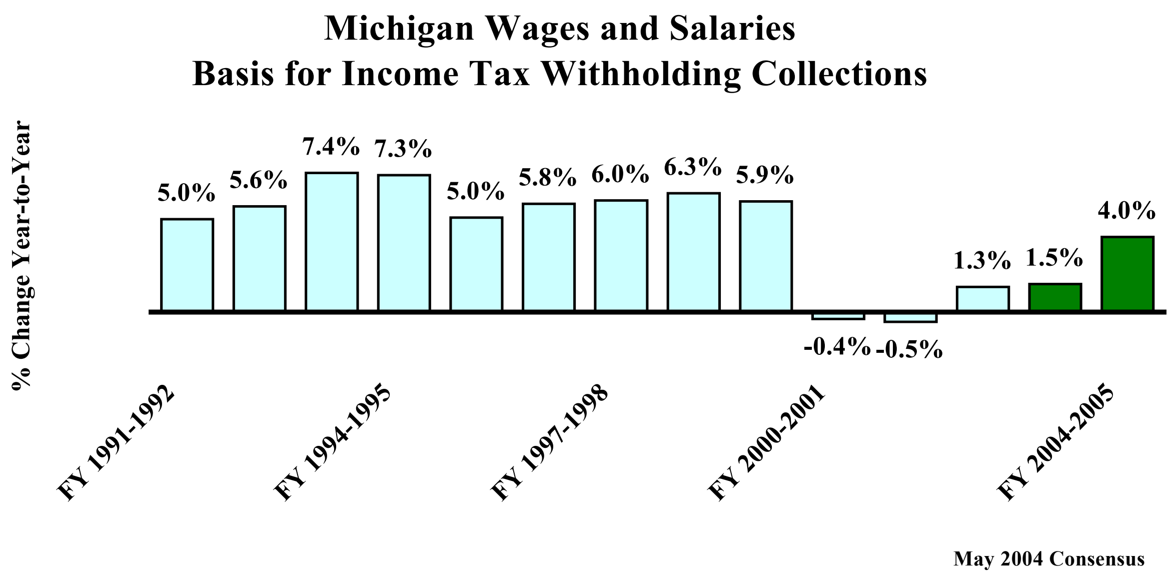


May 2004 Consensus

Source: U.S. Bureau of Labor Statistics and Consensus Forecast, May 2004.

Fiscal Year Economics

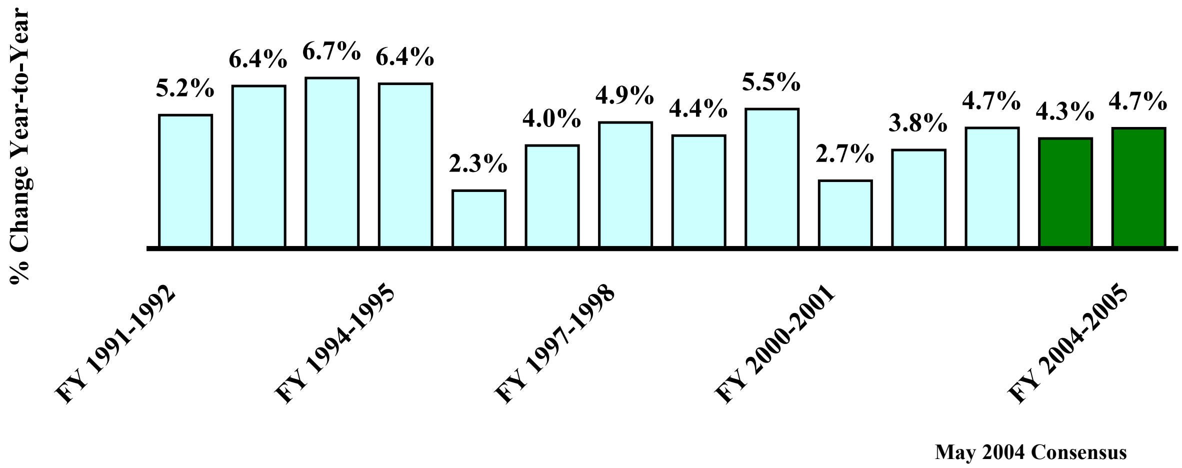
Michigan's largest taxes are the individual income tax ($5.8 billion) and sales and use taxes ($7.7 billion). Income tax withholding is the largest income tax component. Withholding ($6.4 billion) is most affected by growth in wages and salaries. Michigan wages and salaries are expected to grow 1.5 percent and 4.0 percent in FY 2004 and FY 2005, respectively. The FY 2005 forecasted increase follows four consecutive years of slight declines or slight growth, and is substantially slower than growth reported through much of the 1990s.



Source: Bureau of Economic Analysis, U.S. Department of Commerce, and Consensus Forecast, May 2004.

Sales and use taxes depend primarily on Michigan disposable (after tax) income and inflation. Disposable income is expected to rise 4.3 percent in FY 2004 and 4.7 percent in FY 2005. (See chart on following page.) Disposable income rises faster than wage and salary income because of federal income tax rate cuts. The inflation rate is expected to increase 1.7 percent in FY 2004 and 2.8 percent in FY 2005.

Michigan Disposable Income
Basis for Sales and Use Tax Collections



Source: Research Seminar in Quantitative Economics, University of Michigan and Consensus Forecast, May 2004.

Forecast Risks

The economic outlook is becoming more positive as employment gains are being recorded. However, employment levels at the national and state level are still well below the previous recession peaks. The baseline forecast predicts that stronger growth will spur U.S. employment increases in 2004 and modest Michigan employment gains by the end of 2004. If employment gains do not materialize in the upcoming year, economic growth will decline as consumer and business spending retrenches. Michigan employment has not yet seen the level of growth recently seen at the national level. If Michigan's employment level does not begin to increase soon, economic growth will be below forecast levels.

If business investment is above projected levels, economic growth may be more than forecast. For the Michigan economy, Big Three market share is important. Sharp declines in market share would affect the Michigan economy adversely compared to other states.

Sharply higher oil and natural gas prices could curb growth. In general, unanticipated price increases could curb growth. Weaker growth abroad could also slow domestic growth as exports decline. Equity prices are expected to rise moderately. Slower growth or outright declines could slow consumption and investment spending. If the U.S. dollar declines sharply, inflation risks would increase. Geopolitical concerns also pose a risk to the forecast.

CONSENSUS REVENUE ESTIMATES
May 18, 2004

Revenue Estimate Overview

The revenue estimates presented in this section consist of baseline revenues, revenue adjustments, and net revenues. Baseline revenues provide an estimate of the effects of the economy on tax revenues. For these estimates, FY 2003 is the base year. Any non-economic changes to the taxes occurring in FY 2004 and FY 2005 are not included in the baseline estimates. Non-economic changes are referred to in the tables as "tax adjustments." The net revenue estimates are the baseline revenues adjusted for tax adjustments.

This treatment of revenue is best illustrated with an example. Suppose tax revenues are $10.0 billion in a given year, and that based on the economic forecast, revenues are expected to grow by 5.0 percent per year. Baseline revenue would be $10.0 billion in Year 1, $10.5 billion in Year 2, and $11.0 billion in Year 3. Assume a rate cut is in place that would reduce revenues by $100 million in Year 1, $200 million in Year 2, and $300 million in Year 3. If Year 1 is the base year, the revenue adjustments for Year 1 would be $0 since the tax cut for this year is included in the base. The revenue adjustments for Year 2 would be $100 million, and the revenue adjustments for Year 3 would be $200 million, since the revenue adjustments are compared to the base year.

In the example above, the baseline revenues would be $10.0 billion, $10.5 billion, and $11.0 billion, for Years 1 through 3, respectively. The revenue adjustments would be $0 in Year 1, $100 million in Year 2, and $200 million in Year 3. The $200 million in Year 3 represents the tax cuts since Year 1. Net revenue would be $10.0 billion in Year 1, $10.4 billion in Year 2, and $10.8 billion in Year 3.

The revenue figures presented below are on a Consensus basis. Generally speaking, the Consensus estimates do not include certain one-time budget measures, such as withdrawals from the Budget Stabilization Fund, the sale of buildings, etc. The figures also assume the full statutory amount for revenue sharing payments. In addition, the estimates only include enacted legislation and do not include the effects of any proposed changes. The School Aid Fund estimates consist of taxes plus the transfer from the State Lottery Fund.

FY 2003 Revenue Review

Continued slow economic growth reduced FY 2003 revenues. FY 2003 GF-GP revenue totaled \$7,958.9 million, a 5.6 percent drop from FY 2002. FY 2003 SAF revenue totaled \$10,714.8 million, a 5.7 percent increase over FY 2002. The School Aid Fund benefited from a shift in the timing of state education tax payments, which generated approximately \$450 million. Without this change, SAF revenues would have increased approximately 1.3 percent.

Table 2

FY 2002-03 Total Revenue

(millions)

	Consensus January 14, 2004		Actual Consensus Basis		
	Amount	**Growth**	**Amount**	**Growth**	**Change**
General Fund - General Purpose					
Baseline Revenue	\$7,943.6	NA	\$7,944.8	NA	
Tax Cut Adjustments	\$14.1	NA	\$14.1	NA	
Net Resources	\$7,957.7	-5.6%	\$7,958.9	-5.6%	\$1.2
School Aid Fund					
Baseline Revenue	\$10,255.6	NA	\$10,255.7	NA	
Tax Cut Adjustments	\$459.2	NA	\$459.2	NA	
Net Resources	\$10,714.7	5.7%	\$10,714.8	5.7%	\$0.1
Combined					
Baseline Revenue	\$18,199.2	NA	\$18,200.5	NA	
Tax Cut Adjustments	\$473.3	NA	\$473.3	NA	
Net Resources	\$18,672.5	0.6%	\$18,673.8	0.6%	\$1.3

FY 2004 Revenue Outlook

FY 2004 GF-GP revenue is expected to be $7,866.4 million, a 1.7 percent GF-GP baseline increase and a 1.2 percent decline after tax adjustments. The FY 2004 GF-GP revenue estimate is $8.9 million above the January Consensus estimate. SAF revenue is forecast to be $10,535.2 million, a 1.9 percent SAF baseline increase, and a 1.7 percent decline after tax adjustments. (See Table 3.) The FY 2004 SAF revenue estimate is $49.1 million below the January Consensus estimate.

Table 3

FY 2003-04 Consensus Revenue Estimates

(millions)

	Consensus January 14, 2004		Consensus May 18, 2004		
	Amount	**Growth**	**Amount**	**Growth**	**Change**
General Fund - General Purpose					
Baseline Revenue	$8,045.5	1.3%	$8,076.0	1.7%	
Tax Cut Adjustments	($188.0)	NA	($209.6)	NA	
Net Resources	$7,857.5	-1.3%	$7,866.4	-1.2%	$8.9
School Aid Fund					
Baseline Revenue	$10,495.4	2.3%	$10,446.3	1.9%	
Tax Cut Adjustments	$89.0	NA	$89.0	NA	
Net Resources	$10,584.3	-1.2%	$10,535.2	-1.7%	($49.1)
Combined					
Baseline Revenue	$18,540.9	1.9%	$18,522.3	1.8%	
Tax Cut Adjustments	($99.0)	NA	($120.6)	NA	
Net Resources	$18,441.9	-1.2%	$18,401.7	-1.5%	($40.2)

FY 2005 Revenue Outlook

Baseline revenue growth improves in FY 2005 with the improving economy. FY 2005 GF-GP revenue is expected to be $7,856.3 million, a 4.2 percent baseline increase and a 0.1 percent reduction after tax adjustments. Net GF-GP growth is slowed by a number of factors including the income tax rate cut, the continued phase-out of the state's estate tax, and the shift of some cigarette tax revenues to the Budget Stabilization Fund. The FY 2005 estimate is $33.6 million above the January Consensus estimate. SAF revenue is forecast to be $10,960.4 million, representing 4.1 percent SAF baseline growth and 4.0 percent growth after tax adjustments. The FY 2005 SAF estimate is $38.2 million below the January Consensus estimate. (See Table 4.)

Table 4

FY 2004-05 Consensus Revenue Estimates

(millions)

	Consensus January 14, 2004		Consensus May 18, 2004		
	Amount	**Growth**	**Amount**	**Growth**	**Change**
General Fund - General Purpose					
Baseline Revenue	$8,369.3	4.0%	$8,417.2	4.2%	
Tax Cut Adjustments	($546.6)	NA	($560.9)	NA	
Net Resources	$7,822.8	-0.4%	$7,856.3	-0.1%	$33.6
School Aid Fund					
Baseline Revenue	$10,917.9	4.0%	$10,874.2	4.1%	
Tax Cut Adjustments	$80.6	NA	$86.2	NA	
Net Resources	$10,998.5	3.9%	$10,960.4	4.0%	($38.2)
Combined					
Baseline Revenue	$19,287.3	4.0%	$19,291.4	4.2%	
Tax Cut Adjustments	($466.0)	NA	($474.7)	NA	
Net Resources	$18,821.3	2.1%	$18,816.7	2.3%	($4.6)

Constitutional Revenue Limit

Article IX, Section 26, of the Michigan Constitution establishes a limit on the amount of revenue state government can collect in any given fiscal year. The revenue limit for a given fiscal year is equal to 9.49 percent of the state's personal income for the calendar year prior to the year in which the fiscal year begins. FY 2002 revenue is compared to CY 2000 personal income. If revenues exceed the limit by less than 1 percent, the state may deposit the excess into the Budget Stabilization Fund (BSF). If the revenues exceed the limit by more than 1 percent, the excess revenue is refunded to taxpayers via the income and single business taxes.

FY 2003 revenues were $4.2 billion below the revenue limit. State revenues will be well below the limit for FY 2004 and FY 2005 due to the effects of tax cuts and the economic slowdown on the state's revenue stream. FY 2004 revenues are expected to be $4.9 billion below the limit, and FY 2005 revenues are expected to be $4.7 billion below the limit. (See Table 5.)

Table 5

Consensus Constitutional Revenue Limit Calculation

(millions)

	FY 2002 Actual Mar 2003	FY 2003 Actual Mar 2004	FY 2004 Consensus May 2004	FY 2005 Consensus May 2004
Revenue Subject to Limit	$23,546.0	$24,061.6	$23,962.1	$24,383.4
Revenue Limit	**CY 2000**	**CY 2001**	**CY 2002**	**CY 2003**
Personal Income	$289,390	$297,609	$303,745	$306,820
Ratio	9.49%	9.49%	9.49%	9.49%
Revenue Limit	$27,463.1	$28,243.1	$28,825.4	$29,117.2
Amount Under (Over) Limit	**$3,917.1**	**$4,181.5**	**$4,863.3**	**$4,733.9**

Budget Stabilization Fund Calculation

The Management and Budget Act contains provisions for calculating a recommended deposit or withdrawal from the BSF. The calculation looks at personal income net of transfer payments adjusted for inflation. The change in this figure for the calendar year determines whether a pay-in or pay-out is dictated. If the formula calls for a deposit into the BSF, the deposit is made in the next fiscal year. If the formula calls for a withdrawal, the withdrawal is made during the current fiscal year.

If real personal income grows by more than 2 percent in a given calendar year, the fraction of income growth over 2 percent is multiplied by the current fiscal year's GF-GP revenue to determine the pay-in for the next fiscal year. If real personal income declines, the percentage deficiency under zero is multiplied by the current fiscal year's GF-GP revenue to determine the withdrawal available for the current fiscal year. If the change in real personal income is between 0 and 2 percent, no pay-in or withdrawal is indicated.

Real calendar year personal income for Michigan is expected to increase by 1.3 percent in 2004. Therefore, no pay-in is dictated for FY 2005 (See Table 6.)

Table 6

Budget and Economic Stabilization Fund Calculation Based on CY 2004 Personal Income Growth Consensus Calculation

	CY 2003	CY 2004
Michigan Personal Income	$ 306,820 [1]	$ 316,945 [2]
less Transfer Payments	$ 48,374 [1]	$ 51,373 [2]
Income Net of Transfers	$ 258,446	$ 265,572
Detroit CPI	1.814 [3]	1.839 [4]
for 12 months ending	(June 2003)	(June 2004)
Real Adjusted Michigan Personal Income	$ 142,473	$ 144,380
Change in Real Adjusted Personal Income		1.3%
Between 0 and 2%		0.0%
GF-GP Revenue Fiscal Year 2003-2004		$ 7,866.4

	FY 2004-2005
BSF Pay-In Calculated for FY 2005	NO PAY-IN INDICATED

Notes:

[1] Personal Income and Transfer Payments, Bureau of Economic Analysis, April 2004.

[2] Personal Income and Transfer Payments, Consensus Forecast, May 2004.

[3] Detroit Consumer Price Index, Average of 6 monthly values reported by BLS for each 12-month period.

[4] Detroit Consumer Price Index, May 2004 Consensus Forecast.

School Aid Fund Revenue Adjustment Factor

The School Aid Fund (SAF) revenue adjustment factor for the next fiscal year is calculated by dividing the sum of current year and subsequent year SAF revenue by the sum of current year and prior year SAF revenue. For example, the FY 2005 SAF revenue adjustment factor is calculated by dividing the sum of FY 2004 and FY 2005 SAF revenue by the sum of FY 2003 and FY 2004 SAF revenue. The SAF revenue totals are adjusted for any change in the rate and base of the SAF taxes. The year for which the adjustment factor is being calculated is used as the base year for any tax adjustments. For FY 2005, the SAF revenue adjustment factor is calculated to be 1.0296. (See Table 7.)

Table 7

Consensus School Aid Revenue Adjustment Factor

For Fiscal Year FY 2005

	FY 2002-03	FY 2003-04	FY 2004-05
Baseline SAF Revenue	$10,255.7	$10,446.3	$10,874.2
Balance Sheet Adjustments	$459.2	$89.0	$86.2
Net SAF Estimates	$10,714.8	$10,535.2	$10,960.4
Adjustments to FY 2005 Base Year	($373.0)	($2.8)	$0.0
Baseline Revenue on a FY 2005 Base	$10,341.9	$10,532.4	$10,960.4

School Aid Fund Revenue Adjustment Calculation for FY 2004-05

Sum of FY 2002-03 & FY 2003-04	$10,341.9	+	$10,532.4	=	$20,874.3
Sum of FY 2003-04 & FY 2004-05	$10,532.4	+	$10,960.4	=	$21,492.8

FY 2004-05 Revenue Adjustment Factor	**1.0296**

Note: Indexes are calculated off a FY 2005 base year.

The pupil membership factor for the next fiscal year is computed by dividing the estimated pupil membership in the school year ending in the current state fiscal year by the estimated membership factor in the subsequent fiscal year. The pupil membership factor is 0.9986 for FY 2005. (See Table 8.)

Table 8

Consensus Estimate of the Pupil Membership Adjustment Factor

Consensus Estimates FY 2003-2004		
FY 2003-2004 Pupil Membership	1,640,921	Local District Pupils
	73,455	Public School Academy Pupils
	1,714,376	
Consensus Estimates FY 2004-2005		
FY 2004-2005 Pupil Membership	1,637,300	Local District Pupils
	79,500	Public School Academy Pupils
	1,716,800	

FY 2004-2005 Membership Adjustment Factor

FY 2003-2004 Pupil Membership	1,714,376	=	0.9986
FY 2004-2005 Pupil Membership	1,716,800		

The foundation allowance index is calculated by multiplying the pupil membership factor by the revenue adjustment factor. Therefore, for FY 2005 the index is 1.0282.

Table 9

Consensus Estimate of the Foundation Allowance Index

Current Law Estimates

Foundation Allowance Index	FY 2004-2005
Consensus Pupil Membership Adjustment Factor	0.9986
Consensus Revenue Adjustment Factor	1.0296
Consensus Foundation Allowance Index	1.0282

Revenue Detail

The estimated tax and revenue totals include the effects of all enacted tax changes except sales tax savings resulting from reductions in revenue sharing payments to local units. The revenue totals by tax are presented separately for GF-GP and for the SAF. (See Tables 10 and 11.) Tax totals for the income, sales, use, and tobacco taxes for all funds are also included. (See Table 12.)

Table 10

Consensus General Fund General Purpose Revenue Detail

(millions)

	FY 2003		FY 2004		FY 2005	
	Amount	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**
GF-GP Tax Amounts						
Income Tax	$3,960.9	-6.4%	$3,949.1	-0.3%	$4,024.3	1.9%
Sales	$63.7	-27.6%	$103.2	62.0%	$119.8	16.0%
Use	$819.6	-5.6%	$855.1	4.3%	$885.8	3.6%
Cigarette	$289.2	48.4%	$286.2	-1.0%	$128.0	-55.3%
Beer & Wine	$51.1	2.2%	$51.5	0.8%	$52.0	1.0%
Liquor Specific	$31.1	4.0%	$31.3	0.6%	$31.6	1.0%
Single Business Tax	$1,842.9	-7.1%	$1,823.7	-1.0%	$1,917.5	5.1%
Insurance Co. Premium	$231.1	1.8%	$247.0	6.9%	$261.0	5.7%
Telephone & Telegraph	$124.2	-9.5%	$120.6	-2.9%	$120.6	0.0%
Inheritance Estate	$98.6	-24.7%	$65.0	-34.1%	$34.0	-47.7%
Intangibles	($1.4)	0.0%	$0.0	0.0%	$0.0	0.0%
Horse Racing	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
Oil & Gas Severance	$47.9	56.0%	$56.0	16.9%	$50.0	-10.7%
GF-GP Other Taxes	$52.6	-57.4%	$32.0	-39.2%	$33.0	3.1%
Total GF-GP Taxes	$7,611.4	-6.0%	$7,620.6	0.1%	$7,657.5	0.5%
GF-GP Non-Tax Revenue						
Federal Aid	$47.2	91.1%	$30.0	-36.4%	$30.0	0.0%
From Local Agencies	$0.9	12.5%	$1.0	11.1%	$1.0	0.0%
From Services	$8.5	63.5%	$8.0	-5.9%	$8.0	0.0%
From Licenses & Permits	$16.9	2.4%	$18.0	6.5%	$18.0	0.0%
Miscellaneous	$100.0	-24.0%	$60.0	-40.0%	$62.0	3.3%
Short Term Note Int.	($8.0)	0.0%	$0.0	0.0%	$0.0	0.0%
Interfund Interest	($13.3)	11.8%	($30.0)	125.6%	($80.0)	166.7%
Liquor Purchase	$126.8	7.3%	$120.0	-5.4%	$121.0	0.8%
Charitable Games	$11.2	-7.4%	$11.0	-1.8%	$11.0	0.0%
Transfer From Escheats	$57.3	79.6%	$27.8	-51.5%	$27.8	0.0%
Other Non Tax	$0.0	0.0%	$0.0	0.0%	$0.0	0.0%
Total Non Tax	$347.5	5.6%	$245.8	-29.3%	$198.8	-19.1%
Total GF-GP Revenue	$7,958.9	-5.6%	$7,866.4	-1.2%	$7,856.3	-0.1%

Table 11

Consensus School Aid Fund Revenue Detail

	FY 2003		FY 2004		FY 2005	
	Amount	**Growth**	**Amount**	**Growth**	**Amount**	**Growth**
School Aid Fund						
Income Tax	$1,847.8	-0.7%	$1,911.1	3.4%	$1,996.5	4.5%
Sales Tax	$4,681.4	-0.3%	$4,736.7	1.2%	$4,955.8	4.6%
Use Tax	$410.2	-5.8%	$427.4	4.2%	$442.8	3.6%
Liquor Excise Tax	$30.6	5.2%	$31.3	2.3%	$31.6	1.0%
Cigarette	$471.4	22.1%	$463.7	-1.6%	$456.8	-1.5%
Other Tobacco	$17.7	1.0%	$16.0	-9.7%	$16.0	0.0%
State Ed Prop Tax	$2,127.5	34.3%	$1,745.2	-18.0%	$1,859.7	6.6%
Real Estate Transfer	$275.5	8.9%	$297.7	8.1%	$293.0	-1.6%
Ind and Comm Facilities	$161.2	5.8%	$156.0	-3.2%	$157.0	0.6%
Casino (45% of 18%)	$90.9	0.0%	$98.5	8.4%	$99.3	0.8%
Commercial Forest	$2.8	12.0%	$2.8	0.0%	$2.8	0.0%
Other Spec Taxes	$11.8	-7.8%	$12.0	1.7%	$12.0	0.0%
Subtotal Taxes	$10,128.8	6.4%	$9,898.3	-2.3%	$10,323.3	4.3%
Lottery Transfer	$586.0	-4.5%	$637.0	8.7%	$637.0	0.0%
Total SAF Revenue	$10,714.8	5.7%	$10,535.2	-1.7%	$10,960.4	4.0%

Table 12

Consensus Major Tax Totals

Major Tax Totals (Includes all Funds)						
Income Tax	$5,810.6	-4.7%	$5,861.7	0.9%	$6,022.3	2.7%
Sales Tax	$6,422.6	-0.2%	$6,500.7	1.2%	$6,800.7	4.6%
Use Tax	$1,229.8	-5.9%	$1,282.5	4.3%	$1,328.6	3.6%
Cigarette and Tobacco	$890.9	37.5%	$876.8	-1.6%	$864.1	-1.4%